October 1990 Monthly Survey November 2, 1990

Surveys of Consumers

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CONSUMER CONFIDENCE TUMBLES: RECORD THREE-MONTH DECLINE

Record Fall In Consumer Optimism

The Index of Consumer Sentiment fell to 63.9 in the October 1990 survey from 72.8 in September, leaving it 30 Index-points below the October 1989 reading of 93.9. Most of the decline was recorded during the past three months, when the Index fell by a total of 24.3 Index-points. This was the largest three-month decline in the history of these surveys.

The Index reached its cyclical peak of 101.0 in March of 1984, and for the following five years remained at relatively high levels. Since the start of 1989, when the Index stood at 97.9, it has declined by a total of 34 Index-points. The extent of this decline compares closely with the total peak-to-trough decline prior to the 1973-75 recession (a 37.6 Index-point decline) and the decline prior to the twin recessions of the early 1980s (a 38.5 Index-point decline). Although the current Index level of 63.9 is still above the all-time record low of 51.7 (May 1980), the cyclical lowpoints have usually been recorded toward the middle of the recession period not at it inception.

While confidence is likely to decline even further as recessionary forces grip the economy, it has rarely declined in an uninterrupted fashion from peak to trough. It can be expected that a one-month rebound might temporarily reverse some of the sharp recent losses. A reversal in the underlying downward trend, however, would require repeated improvements over an extended period of time.

Overall, the recent results indicate that cumulative cutbacks in consumer spending can be expected in the coming months. In past cycles, downturns in consumer attitudes have occurred on average from six months to one year in advance of spending cutbacks. Given the losses recorded since July, the impact on consumer spending can be expected from year-end through the first half of 1991.

Widespread Loss Of Confidence

The October decline was widespread among all population subgroups and across all of the various attitude and expectation measures.

Among families with incomes of $30,000 or more, the Index fell to 69.4 in October, from 75.7 one month earlier and 100.2 one year earlier. During the past three months, the Index among higher income families fell a total of 24.5 Index-points.

The sentiment index fell by a comparable amount across all age groups during the past three months. For respondents under age 35, the consumer sentiment fell by 23 Index-points from July to October; among those aged 35 to 54, it fell 25 Index-points; and for those 55 years or older, the Index fell 23 Index-points from July to October.

Among residents of the North Central region, the Index fell to 63.6 in October, a decline of 29.7 Index-points from three months earlier; among residents

of the Northeast, the Index fell to 59.8 in October, a 22.8 Index-point decline from three months earlier; among residents of the Western region the Index fell to 67.6 in October, a decline of 22.5 Index-points; and among Southern residents the Index fell to 64.5, a drop of 20.8 points from three months earlier.

Expectations Component Sharply Lower

The Index of Consumer Expectations, the component of the Index of Leading Indicators, fell to 50.9 in the October 1990 survey, from 58.8 one month earlier and 87.2 one year earlier. During the past three months, the Expectations Index declined by 26.4 Index-points--a 34% drop from its July level. The all-time record low in the Expectations Index was 44.2, recorded in July 1979. The October decline was due to both less favorable expectations for the national economy as well as for personal finances.

Economy In Recession

In the October 1990 survey, 74 percent of all respondents thought that the national economy had worsened during the past year, up from 62 percent one month earlier and just 39 percent three months earlier. When asked about prospects for the year ahead, 43 percent of all respondents thought that conditions in the general economy would further worsen, more than twice the 20 percent recorded three months earlier.

Just 14 percent of all families expected good times financially in the economy as a whole during the next 12 months, down from 40 percent three months earlier and 53 percent one year earlier. Among all households, 71 percent expected bad times financially in the economy as a whole during the year ahead in the October 1990 survey, up from 42 percent three months earlier and just 29 percent one year earlier.

Prospects for the economy over the longer term have declined in recent months, but the decline has not been as dramatic as for the near term outlook. Overall, 65 percent of all households expected bad times in the economy during the next five years, up from 50 percent three months earlier and 43 percent one year earlier.

Rising Unemployment Dominant Concern

The national unemployment rate was expected to increase by 62 percent of all families in the October 1990 survey, up sharply from the 44 percent recorded one month earlier and the 30 percent recorded one year earlier. The October 1990 reading was the highest figure to be recorded since the Spring of 1980, when the all-time peak of 72 percent was set in May of 1980.

Confidence in Government Economic Policies Falls

Confidence in government economic policies declined sharply in the October 1990 survey. Among all households, 38 percent rated government policies to control inflation and unemployment as poor, up from 26 percent one month earlier and 19 percent one year earlier. Just 11 percent of all households in the October 1990 survey thought that the government was doing a good job. Overall, this was the lowest level of confidence in government economic policies recorded since the early 1980s.

Personal Finances Weaken Significantly

Because of rising prices and smaller income increases, more consumers reported that their financial situation had worsened during the past year, and more families expected their financial situation to worsen during the year ahead. Overall, consumers' evaluations of their personal financial situation in the October 1990 survey were the least favorable since the early 1980s.

The proportion of families that reported that their personal financial situation had worsened rose to 39 percent in the October 1990 survey from 30 percent

one month earlier and 28 percent three months earlier. Complaints that rising prices had reduced their living standards were made by 24 percent of all households in the October 1990 survey, twice the level recorded three months earlier. During the past three months, the proportion of households that reported income gains fell to 24 from 32 percent, while reports of income declines rose to 19 from 13 percent.

For the year ahead, 29 percent of all households expected their personal financial situation to improve in the October 1990 survey, down from 37 percent three months earlier, while the proportion that expected to be worse off financially rose to 24 from 10 percent.

Inflation Expectations
Unchanged At Higher Level

The inflation rate during the year ahead was expected to average 6.1% in the October 1990 survey, largely unchanged from one and two months earlier.

Immediately following the initial increases in gasoline prices in August, the overall rate of inflation consumers expected quickly jumped to 6.1% from the 4.7% recorded in July. Since then, despite further increases in gasoline prices, consumer have not made any further upward revisions. This stands in sharp contrast to the inflationary psychology that developed in prior decades. Indeed, consumers are now more likely to resist price increases rather than adopt the rationale that is better to buy-in-advance of rising prices. As a consequence, retailer will find this resistance to price increases will continue to squeeze profit margins.

Buying Attitudes Weakest
Since Last Recession

Favorable attitudes toward buying conditions declined in each market studied in the October survey. Overall, the proportion of households holding favorable buying attitudes has declined by 15 percentage points during the last three months. Common to each market studied, respondents increasingly mentioned their concerns about the current and future state of the economy, and it was these apprehensions that made them believe that it was an unfavorable time to make major purchases or incur new debts.

Homes. Favorable attitudes toward buying conditions for homes were held by 50 percent of all households in October, down from 58 percent one month earlier and 66 percent three months earlier. At present, home buying attitudes are at their lowest level since the last recession. Even prior to the recent decline, home buying attitudes were significantly weaker than at their 1986 cyclical peak, when 86 percent rated home buying conditions favorable.

The decline during the past three months was largely due to less favorable perceptions of mortgages rates, with favorable references falling to 11 from 24 percent. In addition, more families thought it was a bad time to buy a home because of the current state of the economy as well as apprehensions about the future--mentioned by 22 percent of all households in October, up from just 5 percent three months earlier. This was the highest proportion to mention these generalize concerns as the direct cause for their unfavorable attitudes since the recession of 1982.

The general decline in favorable home buying attitudes came despite a rise in the proportion of families that mentioned the availability of lower home prices. Overall, 34 percent of all families referred to the availability of lower home prices in the October 1990 survey, up from 30 percent in September, setting a new all-time record level.

Vehicles. Favorable attitudes toward buying conditions for vehicles were held by 50 percent of all households in the October 1990 survey, down from 59 percent one month earlier and 65 percent three months earlier. Overall, the October reading was the least favorable evaluation of buying conditions for vehicles since the recession year of 1982.

When asked to explain their views, unfavorable references to gas price increases rose to 12 percent in October, from less than one percent three months earlier. Uncertainty about the future level of gas prices has led to greater indecision about the type and size of vehicle they would next purchase. Moreover, concerns about future economic conditions (mentioned by 10 percent of all households in October, up from 1 percent three months earlier), have made consumers more cautious in their vehicle spending plans.

Household Durables. The proportion of households holding favorable attitudes toward buying conditions for furniture, appliances, and home electronic goods fell to 58 percent in the October 1990 survey, down from 66 percent one month earlier and 73 percent three months earlier. The October reading was the least favorable assessment of buying conditions for durables since the early 1980s.

The recent declines in favorable attitudes have been due to less favorable perceptions of market prices. References to the availability of discounted prices fell to 26 percent in October from 37 percent three months earlier, while complaints about high prices rose to 16 from 8 percent.

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The October 1990 survey included 503 completed interviews conducted between October 1 and October 26, 1990.